

FISCAL NOTE

Bill #: SB0264 **Title:** Repeal state assumption of district court funding
Primary Sponsor: Grimes, D **Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY 2004 Difference</u>	<u>FY 2005 Difference</u>
Expenditures:		
General Fund	(\$30,211,300)	(\$30,954,689)
Revenue:		
General Fund	(\$1,812,000)	(\$1,812,000)
Net Impact on General Fund Balance:	\$28,399,300	\$29,142,689

<input checked="" type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input checked="" type="checkbox"/> Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. This bill would repeal state assumption of District Courts as provided for in SB 176 and HB 124 of the 2001 Legislative Session. This act will be effective July 1, 2003.
2. Under this bill, the state would no longer be responsible for funding certain District Court expenses. The state would continue to fund the salaries and operating expenses of District Court judges. Neither the state nor the counties would continue to fund the 8.50 FTE authorized in the 2001 session to assist in administration of state assumption of District Courts. To the extent that money is appropriated, the state would continue to fund the District Court Reimbursement Program provided for at 3-5-901 (Section 8 of the bill). The Judiciary would require 1.25 FTE to administer this reimbursement program, funded within the appropriation for the reimbursement program. Expenses for items listed at 3-5-901(1) in excess of the state appropriation for these costs will remain the responsibility of the counties. (See Technical Note #3.)
3. HB 124 and SB 176 (2001) redirected the revenue from a variety of District Court fees that previously had been deposited in county district court or county general funds to the state general fund. This bill would reverse those provisions of HB 124 and SB 176 and deposit these revenues in county funds, reducing general fund revenue by \$1,812,000 annually, beginning with FY 2004.
4. Section 14 of the bill, which amends 15-1-121, the entitlement share payment to local governments, requires the entitlement share payment for county governments to be reduced in each fiscal year by the

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amount that was added one time in FY 2002 for District Court costs. (See Technical Note #2). This will reduce state general fund expenditures by an additional \$17,348,439 each year, beginning with FY 2004.

5. The net impact on the state general fund stemming from assumptions 1 through 4 are shown in the following table:

SB264 - Impact on State General Fund		
	FY2004	FY2005
Total District Court Budget	24,379,042	25,250,501
less: Judges Salaries/Oper. Exp.	(5,458,942)	(5,441,638)
Net Budget Savings	18,920,100	19,808,863
Cost of District Court Reimbursement Program	(6,057,239)	(6,202,613)
Revenue From D.C. Fees	(1,812,000)	(1,812,000)
General Fund Savings from HB2 and HJR2	11,050,861	11,794,250
Reduction in Entitlement Share Payments	17,348,439	17,348,439
Net General Fund Savings	28,399,300	29,142,689

FISCAL IMPACT:

	FY 2004 Difference	FY 2005 Difference
State Judiciary		
FTE		
State De-Assumed FTE	(245.18)	(245.18)
8.50 FTE	(8.50)	(8.50)
Reimbursement Program	1.25	1.25
TOTAL	(252.43)	(252.43)

Expenditures:

P.S./O.E./Equip/etc.	(\$18,920,100)	(\$19,808,863)
Transfers – D.C. Reimbursement Program	6,057,239	6,202,613
Transfers – Entitlement Share Payment	(17,348,439)	(17,348,439)
TOTAL	(\$30,211,300)	(\$30,954,689)

Funding of Expenditures:

General Fund (01)	(\$30,211,300)	(\$30,954,689)
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Revenues:

General Fund (01)	(\$1,812,000)	(\$1,812,000)
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Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$28,399,300	\$29,142,689
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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. Under this bill, county governments will once again assume certain District Court expenses. Certain of these expenses will be paid for by the state through the District Court Reimbursement Program. County governments will not assume funding of the 8.50 FTE authorized in the 2001 session to assist in administration of state assumption of District Courts.
2. County government revenues will increase by \$1,812,000 each year as a result of redirecting District Court fees from the state general fund to county funds.
3. As provided in Section 14 of the bill, the entitlement share payment for county governments will be reduced in each fiscal year by the amount that was added one time in FY 2002 for District Court costs.
4. The net increase in costs and reductions in revenue to county governments is shown in the following table:

SB264 - Impact on County Governments		
Assumed District Court Costs	18,920,100	19,808,863
less: Reimbursement revenue	(6,057,239)	(6,202,613)
less: Cost of 8.5 Transition FTE	(707,174)	(710,169)
plus: District Court Fees	(1,812,000)	(1,812,000)
Net Increase in District Court Costs	10,343,687	11,084,081
Reduce entitlement share payment for FY2002 amount added for district courts	17,348,439	17,348,439
Net Increase in Cost to Counties	27,692,126	28,432,520

LONG-RANGE IMPACTS:

The impacts to the state general fund and county governments discussed and shown in previous sections of this fiscal note will continue in future biennia.

TECHNICAL NOTES:

1. Section 14 of the bill amends 15-1-121 (the Entitlement Share Payment from HB 124) by removing from the entitlement share payments certain District Court fees. However, the entitlement share payment calculations based on this section of law are history, as they were required to be based on revenues received by local governments in the fiscal year ending June 30, 2001; and are the basis for current and future entitlement share payments to county governments. This amendment to current law suggests that the Department of Revenue would have to go back and remove these District Court fees from the original entitlement share payment calculations, recalculate what the entitlement share payment would have been, and adjust past and current entitlement share payments to county governments. To ensure that county governments do not receive a double benefit from District Court fees (once as payment included in the entitlement share, and once when the counties actually receive the revenue directly under this bill), then an alternative would be to subtract the amount of District Court fees included in the original calculations from current payments to counties. The result would be the base that would grow by the growth factors provided for in HB 124 in subsequent years. (This alternative would only effect current and future entitlement share payments, instead of also altering past payments.)

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2. In HB 124, several sources of revenue that counties had been receiving were re-directed to the state general fund. In exchange for this, counties were to receive a single, annual transfer payment from the state equal to these revenues. However, because the state was also assuming responsibility for the county share of District Court costs in SB 176, the amount of revenue given up by the counties was reduced by the amount of District Court costs that they no longer would have to pay. This was provided for in 15-1-121(2), MCA. Under the original HB 124, this would have occurred first in FY 2002. However, the state was not able to assume District Court costs in FY 2002, and needed an additional year to prepare for the assumption of these costs. So, HB 124 provided for a *one-time add back* of District Court costs to the counties' entitlement share payment for FY 2002 as county governments continued to pay for District Courts in FY 2002. This was provided for 15-1-121(5)(b)(vi), MCA. This bill amends this section of law to provide that an amount equal to the amount added back to entitlement share payments in FY 2002 for District Court costs must be subtracted from entitlement share payments in FY 2003 and in each succeeding fiscal year. Essentially, this bill, as introduced, requires county governments to pay for District Court costs three times: once because District Court costs were removed from their original entitlement share payments at 15-1-121(2); once because of the amendment in this bill at 15-1-121(5)(b)(vi); and once because the intent of the bill to begin with is to return assumption of District Courts to the counties. To make counties whole under this proposal, the amendment at 15-1-121(5)(b)(vi) should be stricken; and the bill should be amended to clarify that the original reduction of entitlement share payments for District Court costs at 15-1-121(2) is void in all future entitlement share payments.
3. Section 8 of the bill amends 3-5-901 by listing in subsection 1 those District Court expenses that the state will continue to pay through the state reimbursement program, subject to the amount appropriated to do so. Subsection 2 of this section provides that if the appropriation exceeds these expenses that the excess can be used to fund: 1) the appellate defender program; 2) the expenses described in subsections (1)(a) through (1)(d); and 3) administration costs. If the appropriation exceeds all of the expenses listed in subsection 1, it is not clear why any excess would be required to fund the particular expenses listed in subsections (1)(a) through (1)(d).
4. Subsection 4 of Section 8 provides that if the money appropriated for the expenses listed in subsection 1 exceeds those expenses then the excess must be used for District Court grants. This appears to directly conflict with subsection (2), which provides for the excess going to different uses.
5. State assumption of District Courts under SB 176 of the 2001 Session transferred state assumed county employees liability of accrued sick and annual leave to the state. SABHRS shows that this liability is approximately \$1,174,000. This bill does not specifically place the responsibility for this leave liability with either the state or counties.